

## Message Text

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PAGE 01 SANTO 00948 011330Z

51

ACTION ARA-10

INFO OCT-01 ISO-00 AGR-05 CIAE-00 DODE-00 PM-03 H-01

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 STR-01 /087 W

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P R 282225Z FEB 75

FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC PRIORITY 2954

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E.O. 11652: N/A

TAGS: ECON, EFIN, DR

SUBJECT: PRESIDENT BALAGUER'S ANNUAL REPORT TO CONGRESS: SWEEPING MEASURES TO MANAGE WINDFALL SUGAR EARNINGS.

REF SANTO DOMINGO 0925

SUMMARY. IN HIS ANNUAL REPORT TO CONGRESS FEBRUARY 27, PRESIDENT BALAGUER ANNOUNCED SWEEPING MEASURES, SOME IMPLEMENTED THE SAME DAY BY SPECIAL DECREES, FOR MANAGING THE WINDFALL EARNINGS RESULTING FROM RECENT SOARING SUGAR PRICES. THESE MEASURES CALL FOR A MONTHLY CEILING ON CENTRAL GOVERNMENT EXPENDITURES, AN \$800 MILLION CEILING IN 1975 ON DISBURSING FOREIGN EXCHANGE HOLDINGS, AND CONTROLS ON DOMESTIC EXPENDITURES OF THE THREE MAJOR SUGAR PRODUCERS. HZ ANNOUNCED A GROWTH IN REAL GNP FOR 1974 OF 8.9 PERCENT (EMBASSY ESTIMATES 6.5 - 7.0 PERCENT), AND A BALANCE OF PAYMENTS DEFICIT IN 1974 OF \$13.5 MILLION, WITH THE DEFICIT IN THE TRADE ACCOUNT OF \$35.4 MILLION. HE PREDICTED A 1975 B/P SURPLUS OF \$101 MILLION. THE INFLATIONARY RATE FOR 1974 WAS STATED TO BE LESS THAN THE 1975. (EMBASSY ESTIMATES INFLATION IS APPROACHING 20 PERCENT AS COMPARED TO 17 PERCENT IN 1973.) GODR IS THUS MOVING IN TIMELY AND VIGOROUS MANNER TO SET ASIDE WINDFALL EARNINGS FOR FUTURE

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PAGE 02 SANTO 00948 011330Z

DEVELOPMENTAL PURPOSES.

1. IN HIS INDEPENDENCE DAY SPEECH TO CONGRESS FEBRUARY 27, PRESIDENT BALAGUER REFERRED TO LARGE INCREASED EXPORT EARNINGS AND DOMESTIC REVENUES IN 1974 RESULTING PRIMARILY FROM VERY HIGH SUGAR PRICES, AND INDICATED HE WAS TAKING A SERIES OF EMERGENCY MEASURES TO AVOID SERIOUS INFLATION. SOME MEASURES HE URGED UPON CONGRESS; OTHERS, SUCH AS A CEILING ON FOREIGN EXCHANGE AVAILABILITIES AND CONTROLS ON DOMESTIC EXPENDITURES BY SUGAR PRODUCERS, HE DECREED THE SAME DAY.

2. BALAGUER CALLED FOR THE FOLLOWING:

(A) MONTHLY CEILING OF \$40 MILLION ON CENTRAL GOVERNMENT EXPENDITURES, WITH EXCESS TO BE PLACED IN A SPECIAL BUDGETARY RESERVE ACCOUNT IN THE CENTRAL BANK. EXCESS MAY BE SPENT IN FUTURE ONLY UPON WRITTEN AUTHORIZATION FROM THE PRESIDENT AND FOR THE SOLE PURPOSE OF INVESTMENT IN THE AGRICULTURAL SECTOR. (DECLINING AGRICULTURAL PRODUCTION HAS BEEN CONTRIBUTING FACTOR IN INFLATION.)

(B) CEILING OF \$800 MILLION ON FOREIGN EXCHANGE AVAILABILITY IN 1975, WITH EXCESS HELD IN SPECIAL ACCOUNT OF CENTRAL BANK.

(C) MODIFICATION IN SUGAR EXPORT TAX LAW OF SEPTEMBER 1974 WHICH ALLOWED SUGAR PRODUCERS TO WRITE OFF INVESTMENTS IN PLANT MODERNIZATION OR EXPANSION AND WORKERS' HOUSING AGAINST TAX LIABILITY NEW GOVERNMENT CONTROLS ON PRODUCERS' DOMESTIC EXPENDITURES WILL BE IN EFFECT SO LONG AS SUGAR PRICE REMAINS ABOVE 20 CENTS PER POUND.

(D) SPENDING ACTIVITIES OF THE STATE-OWNED SUGAR PRODUCING ENTITY (ABOUT 60 PERCENT OF TOTAL PRODUCTION) WILL BE BROUGHT MORE UNDER SUPERVISION OF THE PRESIDENCY.

(E) CENTRAL BANK MAY NOT AUTHORIZE FOREIGN EXCHANGE FOR IMPORTATION OF PASSENGER CARS, ALCOHOLIC BEVERAGES, HOUSEHOLD APPLIANCES, OR TEXTILES. MOST OF THESE ITEMS HAVE BEEN OR CAN BE FINANCED IN THE PARALLEL MARKET, BUT THE SPREAD BETWEEN OFFICIAL AND PARALLEL MARKETS MAY GROW, AND LOCAL TEXTILE MANUFACTURING MAY BE HURT, DEPENDING UPON MANNER OF IMPLEMENTATION.)

(F) POSITION OF HEAD OF MONETARY BOARD IS TAKEN FROM GOVERNOR OF CENTRAL BANK AND GIVEN TO SECRETARY OF FINANCE, AN ARRANGEMENT WHICH PREVAILED BEFORE 1962. (MEASURE PROBABLY DOES NOT RPT NOT SIGNAL SO MUCH A SHIFTED EMPHASIS FROM MONETARY TO FISCAL POLICY AS A SIGNAL OF BALAGUER THAT HE DOES NOT RPT NOT WISH GOVERNOR OF CENTRAL BANK, ALREADY IN TOURISM, AGRICULTURAL DEVELOPMENT, LIMITED OFFICIAL USE

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PAGE 03 SANTO 00948 011330Z

AND THE LIKE, TO BUILD TOO BIG AN EMPIRE.)

3. COMMENT: WHILE GODR WILL NOT TAX SUGAR EARNINGS DIRECTLY (GULF AND WESTERN COULD PRESUMABLY HAVE WRITTEN OFF ADDITIONAL TAX AGAINST US TAX LIABILITY), IT HAS NEVERHELESS TAKEN BIG STEPS IN DIRECTION BOTH OF HUSBANDING ITS SUDDEN BONANZA IN FOREIGN EXCHANGE EARNINGS, AND IN STERILIZING FUNDS INTERNALLY IN ORDER TO COMBAT INFLATION. MOVEROVER, BALAGUER HAS SIGNALLED NOT ONLY THAT

THESE WINDFALL EARNINGS WILL BE SAVED FOR THE MOMENT, BUT THAT HE INTENDS TO USE THEM IN THE FUTURE FOR SUCH IMPORTANT DEVELOPMENTAL ENDS AS THE PROMOTION OF AGRICULTURE. ALL IN ALL, IT IS ENCOURAGING THAT THE GODR IS MOVING IN SUCH A TIMELY AND VIGOROUS MANNER TO COPE WITH SUDDEN LARGE WINDFALL EARNINGS WHICH HAVE CONFOUNDED LARGER AND SUPPOSEDLY MORE SOPHISTICATED LDCS. TIME WILL TELL IF THESE MEASURES WILL CONTAIN GROWING INFLATION, A CONSIDERABLE AMOUNT OF WHICH IS EXOGENOUS, BUT THEY ARE CERTAINLY STRONG STEPS IN THE RIGHT DIRECTION. EMBASSY IS POUCHING TEXT OF SPEECH AND WILL BE MAKING FURTHER ANALYSIS.  
HURWITCH

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